CITY COUNCIL MEETING
AGENDA STATEMENT

Item: __________
Meeting Date: June 8, 2004

ITEM TITLE: Resolution __________ Of The Chula Vista City Council:

A) Directing Staff to Implement the Municipal Energy Utility (MEU) Feasibility Study Preferred Business Models By:
   i. Preparing and Submitting a Community Choice Aggregation (CCA) Implementation Plan to the California Public Utilities Commission (CPUC),
   ii. Preparing and Circulating Requests for Proposals for Greenfield Development (GD) and CCA service providers,
   iii. Actively Participate at CPUC in Matters that May Impact the City MEU Plans, other City Activities and Ratepayer Advocacy Issues, and
   iv. Prepare an Ordinance Declaring the City MEU a CCA.

B) Directing Staff to Continue to Pursue a Franchise Agreement with SDG&E for Existing Electricity Utility Service within the City and All Existing and New Natural Gas Service,

C) Directing Staff to Return to Council With a Staffing Plan that Reflects City Council's Direction to Implement One or More Municipal Energy Business Models, and

D) Appropriating $500,000 from the Available Fund Balance of the General Fund to the Administration Department.

SUBMITTED BY: Assistant City Manager

REVIEWED BY: City Manager **(4/5ths Vote: Yes _X_ No __)**

On Monday May 10, 2004, Staff released copies of the Municipal Energy Utility Feasibility Study, Peer Review and Staff reports to City Council and the public. Two copies of each document were made available at each of the City's three libraries, posted on the City's website, and approximately 20 copies were made available for purchase through the City Clerk's Office. Staff also contacted a number of regional stakeholders, who had previously requested copies, to let them know that the documents were available on the City's website and through the City Clerk or City Manager's office. Additionally, approximately 15 hard copies were either picked up by or delivered to those stakeholders, including one copy that was delivered to SDG&E.

At the May 19, 2004 Municipal Energy Utility (MEU) Workshop and Council Meeting, the City Council listened to approximately five and one half hours of expert testimony and public input regarding the potential development of a Chula Vista public utility. At that workshop, the City Council directed Staff to return to the June 8, 2004 City Council meeting with an ordinance declaring the Chula Vista MEU (established on June 5, 2001, by Ordinance No. 2835) a Community Choice Aggregator, and to further consider the MEU Feasibility Study Consultants' recommendations to implement selected MEU business models. This report provides a brief summary of the May 19, 2004 Consultant presentation. Attached are the original staff report, the Consultants' executive summary and the peer review comments originally transmitted to Council for the workshop presentation.

RECOMMENDATION: That Council:

1) Direct Staff to implement the MEU Feasibility Study preferred business models by; a) preparing and submitting a CCA Implementation Plan to the CPUC, b) prepare and circulate requests for proposals for GD and CCA service providers, c) actively participate at CPUC in matters that may impact the City MEU plans, other City activities and ratepayer advocacy issues, and d) prepare an ordinance declaring the City MEU a CCA. 2) Direct Staff to continue to pursue a franchise agreement with SDG&E for existing electricity utility service within the City and all existing and new natural gas service, 3) Direct staff to return to Council with a staffing plan that reflects City Council's direction to implement one or more municipal energy business models, and 4) Appropriate $500,000 from the available fund balance of the general fund to the Administration Department budget therefor.

BOARDS/COMMISSIONS RECOMMENDATION:

Not applicable.

BACKGROUND: At Council's direction, staff began implementing the City's Energy Strategy and Action Plan, Adopted May 2001. A significant component of the strategy required an analysis of the costs, benefits and risks associated with forming and operating a municipal energy utility, (MEU). Following a comprehensive national search and selection process in March of 2003, the City Council retained the services of Navigant Consulting, Inc., Duncan, Weinberg, Genzer & Pembroke and McCarthy & Berlin (Duncan/Navigant) to conduct the MEU feasibility study. The MEU Study selection committee included six key City staff, Bill Carnahan, Executive Director of Southern California Public Power Authority (SCPPA) and Dave Wright, City of Riverside Municipal Utility Assistant Director.

SDG&E was treated as a partner in the process and invited to participate in the development and implementation of the MEU Feasibility Study, including consultant selection. SDG&E assisted the City with the development of the scope of work for the Study and recommended candidates to conduct the Study. However, SDG&E chose to withdraw from the process just prior to the consultant selection.

Duncan/Navigant recommends that the City pursue a phased approach to specific business models, which the feasibility study, and peer review analysis demonstrate are legally and technically feasible, and financially advantageous. The MEU business models identified by the Duncan/Navigant team include; Community Choice Aggregation (CCA), Greenfield Development (GD) and a Municipal Distribution Utility

(MDU). Staff tested the validity of the consultant's recommendations by conducting technical and consumer peer reviews of the recommended business models. Their findings will be discussed later in this report.

MEU Business Models

Community Choice Aggregation

The City has the option to serve as a Community Choice Aggregator (CCA) for electric power pursuant to Assembly Bill 117. A CCA is an entity that procures electric energy for residents and businesses within a community. Under this business model, the City would not own the electric or gas distribution system within the City. Rather, it would procure electric power either through owning a generation facility, market purchases, or through a partner, on behalf of the customers that choose to aggregate their load. As a CCA, the City would use SDG&E's distribution and transmission facilities to deliver electricity to its customers. This business model is subject to the California Public Utilities Commission's (CPUC) review of the City's Implementation Plan, and/or the implementation of final rules by the CPUC. Under California law (Public Utilities Code § 366.2 and other sections of Chapter 838 of 2002, formerly AB117), for Chula Vista to establish itself as a Community Choice Aggregator it must do so via ordinance. The City also has the option of becoming an aggregator of natural gas service for "non-core" or small business and residential consumers under a different set of state rules and regulations.

Greenfield Development

Another business model, identified by the Duncan/Navigant team, is the implementation of a Greenfield Development (GD). Typically, this business model would include undeveloped acreage of land designated for an industrial park or new residential subdivisions. Duncan/Navigant identified the Otay Ranch Area, Mid-Bay front, and Sunbow planning areas as the sites primarily adaptable to a GD project.

A GD project requires investment in distribution facilities to supply energy to previously undeveloped areas within the City of Chula Vista. The distribution system for undeveloped areas is currently planned and built by the developers of the projects in collaboration with SDG&E. Much of the cost for designing and building the distribution system is borne by the developers who then deed the infrastructure to SDG&E. The consultant's feasibility analysis assumes a worst case, with the distribution system development costs borne entirely by the City. Even under this model, Duncan/Navigant has identified GD as warranting serious consideration.

The MEU may need to fund and construct a substation, and if so, would have to interconnect to SDG&E's system in order to supply energy. The MEU would also need to develop the distribution system configuration (underground) lines, appurtenances, and service extensions, as well as make arrangements for appropriate meters and related customer service functions. Notwithstanding these planning and phasing requirements, these costs are included in the GD business model.

Community Choice Aggregation/Greenfield Development Combined

This business model represents the combination of the main options. The City would implement both the CCA and GD models simultaneously and administer and operate the two programs using City Staff and/or an outside Third-Party service provider to oversee operations. The Duncan/Navigant report indicates that the City enhances the near term economic benefits by forming a CCA program and simultaneously pursuing and implementing GD programs.

Council should note that these first three options, CCA, GD and the combined CCA/GD do not include acquisition of any of SDG&E's existing infrastructure. Staff's pursuit of these options would be greatly enhanced by SDG&E's cooperation on CCA and greatly reduce or eliminate the need for acquiring any of SDG&E's infrastructure. Council may remember that SDG&E supported the City acting as the electricity aggregator for the City at the June 5, 2001 Council meeting when the City adopted its energy strategy. SDG&E also supported CCA at the legislature when AB-117 was established. Staff has subsequently reported to Council that SDG&E's actions at the CPUC workshops regarding CCA have not been supportive.

Municipal Distribution Utility

As defined by Duncan/Navigant, an MDU is a public agency that acquires a portion of, or the entire existing utility infrastructure within its jurisdiction, and uses it to provide energy services previously provided by the incumbent utility. The Duncan/Navigant Report states there are approximately 38 public agencies that currently provide electric utility services to communities in California, servicing approximately 25% of the state's total electric load. With this utility structure, the City could acquire some or all of SDG&E's electric and/or gas distribution system by a negotiated sale or condemnation. Under this option, MDU services could be provided by a City utility department, or contracted out. The City Council, or a separate board appointed by the Council, would oversee the MDU operations. Duncan/Navigant recommends that the MDU model be pursued only after at least 2 years of successful CCA and/or CCA/Greenfield operation.

The following table provides a summary of the projected financial benefits to the Chula Vista community by various business model combinations, as estimated by the Duncan/Navigant Team:

Comparison of MEU Business Models

Rank	MEU Business Model	Electricity Supply Strategy	Nominal Savings ($ Millions)	NPV of Savings ($ Millions)	Average Annual Savings (%)
1*	CCA/Greenfield	Generation	351	122	10%
2	MDU	Generation	329	109	9%
3*	CCA	Generation	244	90	8%
4*	CCA/Greenfield	Contracts	170	52	4%
5*	CCA	Contracts	86	28	2%
6*	Greenfield	Contracts	89	21	10%
7	MDU	Contracts	16	(12)	-1%

The table below provides a comparison of the projected startup costs to community financial benefits for each business model, as estimated by the Duncan/Navigant Team:

Summary of MEU Business models, Startup Cost and Projected Revenues

Business model	Supply Strategy	Pre-implementation Startup Cost	Savings $[1]
CCA	Contract	225 thousand	86 million
CCA	Generation	225 thousand	244 million
CCA/Greenfield	Contract	13.8 million	170 million
CCA/Greenfield	Generation	13.8 million	351 million
MDU	Generation	185 million	329 million
Generation		78 million	

[1]Savings indicated are for the full 18-year study period.

Duncan/Navigant reports that all the recommended MEU business models (except MDU) would be financially viable immediately, if supported by power purchase agreements. Duncan/Navigant also reports that the financial viability of the MEU business models in the table above would be enhanced, including the MDU, if supported by in-city electricity generation with a capacity of 130MW.

Peer Review

To test and validate Duncan/Navigant's conclusions and recommendations, Staff retained the peer review services of three independent energy consultants: R.W. Beck (recommended by SDG&E), Crossborder Energy, and Tabors, Caramanis and Associates. The Peer review reports made several significant contributions to the process, not the least of which were, verifying that the Duncan/Navigant Team had taken a very conservative approach to estimating the projected savings from each business model, and that each business model continued to produce significant financial benefits for the community, even after the Duncan/Navigant team applied a sensitivity analysis to the key assumptions and the most volatile factors underlying the MEU team's recommendations.

Staff further tested the appropriateness of Duncan/Navigant's recommendations by requesting that the Executive Director of UCAN, Michael Shames, and the author of California's Community Choice Aggregation legislation (AB-117), Paul Fenn, review the Study and Peer Review Analysis. Both reviews supported the recommendations of the Report and Peer Review process and strongly encouraged the City to take the next steps to implement the Plan, and work with other jurisdictions in the region, whenever possible.

The MEU Report and the peer review clearly indicate that the City can operate a financially successful municipal utility and that, whichever business model the City Council wishes to focus on, risks can be successfully managed through phasing, and the utilization of the successful business practices used by the existing 38 California, and 1,900 U.S., public utilities. However, the reports identify additional benefits that staff believes are equally important to the City Council's decision regarding a Municipal Utility, as the financial considerations. The additional benefits to a future Chula Vista Municipal Energy Utility include better control of the City's energy future through implementation of the following objectives:

- Establish a local Municipal Utility structure that's only focus is on service and delivering value to the community, not profit to shareholders.
- Establish a local Municipal Utility that is accountable to local ratepayers, not shareholders, state and federal regulators.
- Establish reliable electricity, and under certain circumstances, natural gas supply that reduces or eliminates scheduled brown outs and maintains the highest level of customer service.
- Stabilize consumer rates.
- Establish land use guidelines for power lines and utility boxes that put local quality of life issues first.
- Enhanced Control of Local Public Goods Funds to:
    - Ensure an environmental advantage for City residents and businesses,
    - Invest the $3,000,000 already collected from Chula Vista ratepayers each year to produce real savings for current rate payers,
    - Establish better incentives for existing residents and businesses to invest in conservation and clean generation options,
    - Invest in a more environmentally sustainable energy future based on renewable sources that do not use fossil fuels,
- Invest in medium and long-term energy procurement and power generation strategies that reflect the City's commitment to a sustainable environment and cleaner air including;
    - CO_2 reduction,
    - the prevention of global warming, and
    - particulate reduction.
- Investment in energy procurement and generation, infrastructure and operational services that maintain existing jobs and create new quality jobs for local residents.
- Enable the utilization of the MEU as an economic development tool to retain and attract businesses,

  - o Establish better incentives that encourage developers to reduce costs through increased investment in conservation, energy efficiency and clean generation.
- Generate new city revenues at no increased cost to ratepayers
  - o Equitably invest new revenues generated from an MEU business throughout the City in the form of enhanced existing services and/or new services.
- Enhance Chula Vista's vision to continue as a vibrant community in the region and a leader in environmental stewardship.

Consistent with the existing energy policy and previously articulated Council support for quality jobs and the increased use of renewable energy, energy conservation and efficiency, the recommended and proposed CCA/Greenfield MEU business model provides the Council with the greatest opportunity to develop and incorporate economically viable and local renewable resources in the City's energy portfolio.

The Duncan/Navigant team and Staff recommend using a phased approach to implementing a Chula Vista municipal utility to ensure that the Council will have incremental decision points and that costs, benefits, risks and impacts to the City associated with each step can be evaluated, debated and understood before escalating the City's level of commitment. The peer review consultants also endorse this approach. The Duncan/Navigant and Peer Review reports also indicate that this gradual step-by-step growth will provide the City with valuable experience in the MEU business before fully committing to operating a full distribution business.

Next Steps

If adopted, the proposed resolution will implement a work program that includes but is not limited to the following elements:

1. Return to Council with an Ordinance declaring the City MEU a CCA.

2. Develop and distribute an RFP for Community Choice Aggregation (CCA) and Greenfield Development,

3. Develop a CCA Implementation Plan to submit to the CPUC for review,
   Estimated project costs: $225,000

4. Continue to work with the CPUC to develop viable regulations and exit fees for a CCA program,
   Estimated Costs for the remaining calendar year; $275,000

5. Direct Staff to continue to pursue a Franchise Agreement with SDG&E.

Total Funding Request $500,000

If City Council adopts the recommendations as submitted, Staff will return to Council with a staffing plan that reflects City Council's direction to implement one or more municipal energy business models. Item 3 above addresses the full cost of pursuing CCA issues at the CPUC, which the City is currently involved in through December 2004, but does not reflect the potential costs of participating in all relevant matters before the CPUC. Staff will continue to manage those costs as efficiently and effectively as possible, and will return to Council for further appropriations as needed. Staff may also need return to Council for an additional appropriation to support SDG&E negotiations, depending on the level of negotiation activity and SDG&E's commitment to the process.

FISCAL IMPACTS: The City Council's approval of Staff's recommendation will require an appropriation from the available fund balance of the General Fund to the Administration Department budget in the amount of $500,000 to continue the work with the CPUC to develop viable regulations and exit fees for a (CCA) program.

Attachments:

- May 19, 2004, Energy Staff report
- Executive Summary of the Municipal Energy Utility Feasibility Study
- Peer Review Reports and Comments

Mtm:mud/meu/meu-cas-6-8-04-fin